Trends in Utility Green Pricing Programs

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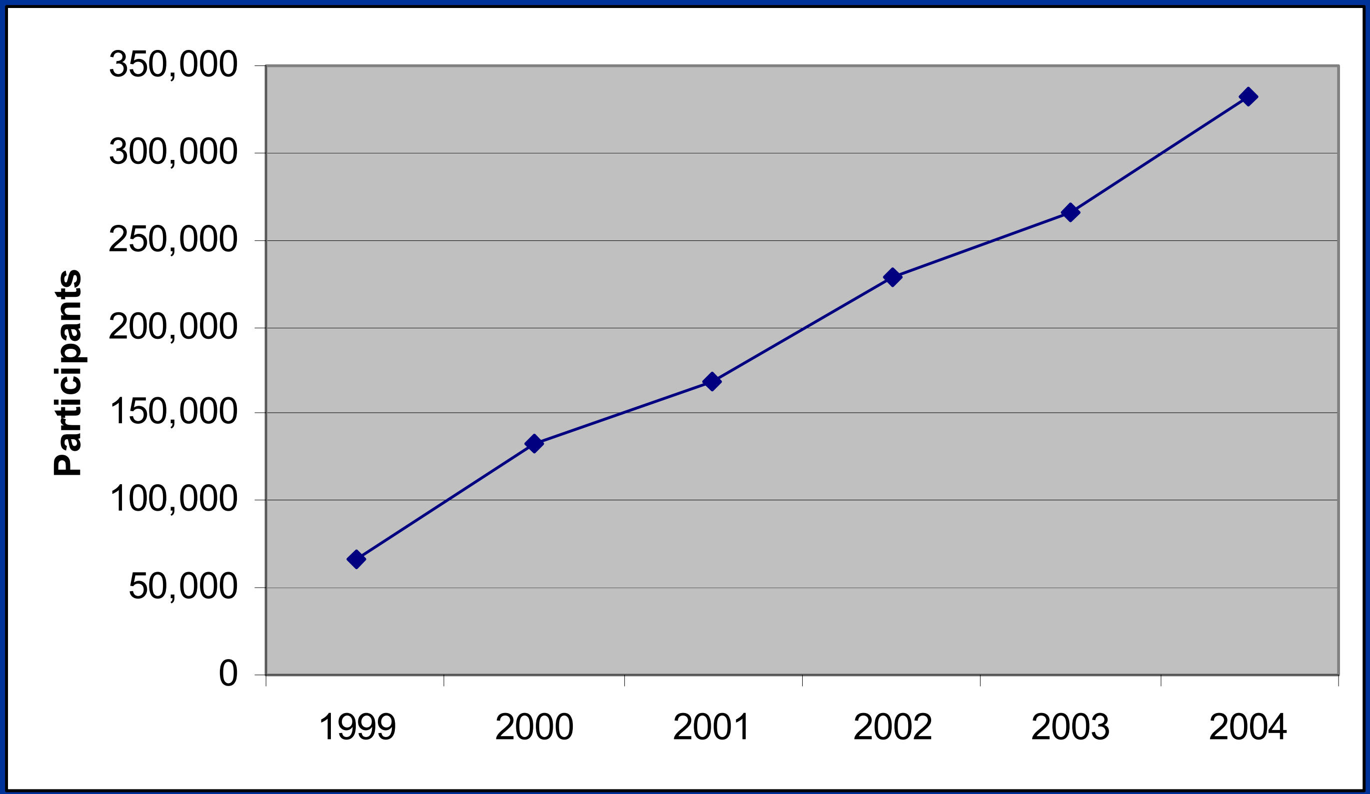
Availability of Green Pricing Programs

- Moderate growth in number of utilities offering programs
- Adding about 15 to 25 programs annually in recent years
- More than 600 utilities in 34 states offer green pricing programs, including many small municipals and co-ops
- 20% of utilities offer programs, compared to 15% in 2003 and 10% in 2002
- About 125 distinct programs exist
- 6 states require utilities to offer green pricing programs – these have already been met (IA, MN, MT, NM, OR, WA)

Customer Participation

- In 2004, participants increased by 25% to 330,000
  - New customers represented nearly one-third of total
- Equivalent growth rates among residential and nonresidential sectors
  - In contrast, nonresidential sector grew much faster in 2003
  - Shift may show a return to residential emphasis or greater competition for nonresidential customers from REC marketers
- Improvement among greater number of programs
  - Top 10 programs accounted for 63% of all customers, down from 75% in 2003
- Attrition rates increased to average of 10%, compared to 7% in 2003, and 4% in 2002
  - May indicate need for more emphasis on retaining customers

Customer Participants in Utility Green Pricing Programs



Nearly fivefold increase in number of customer participants from 1999 to 2004; average annual growth of nearly 40%

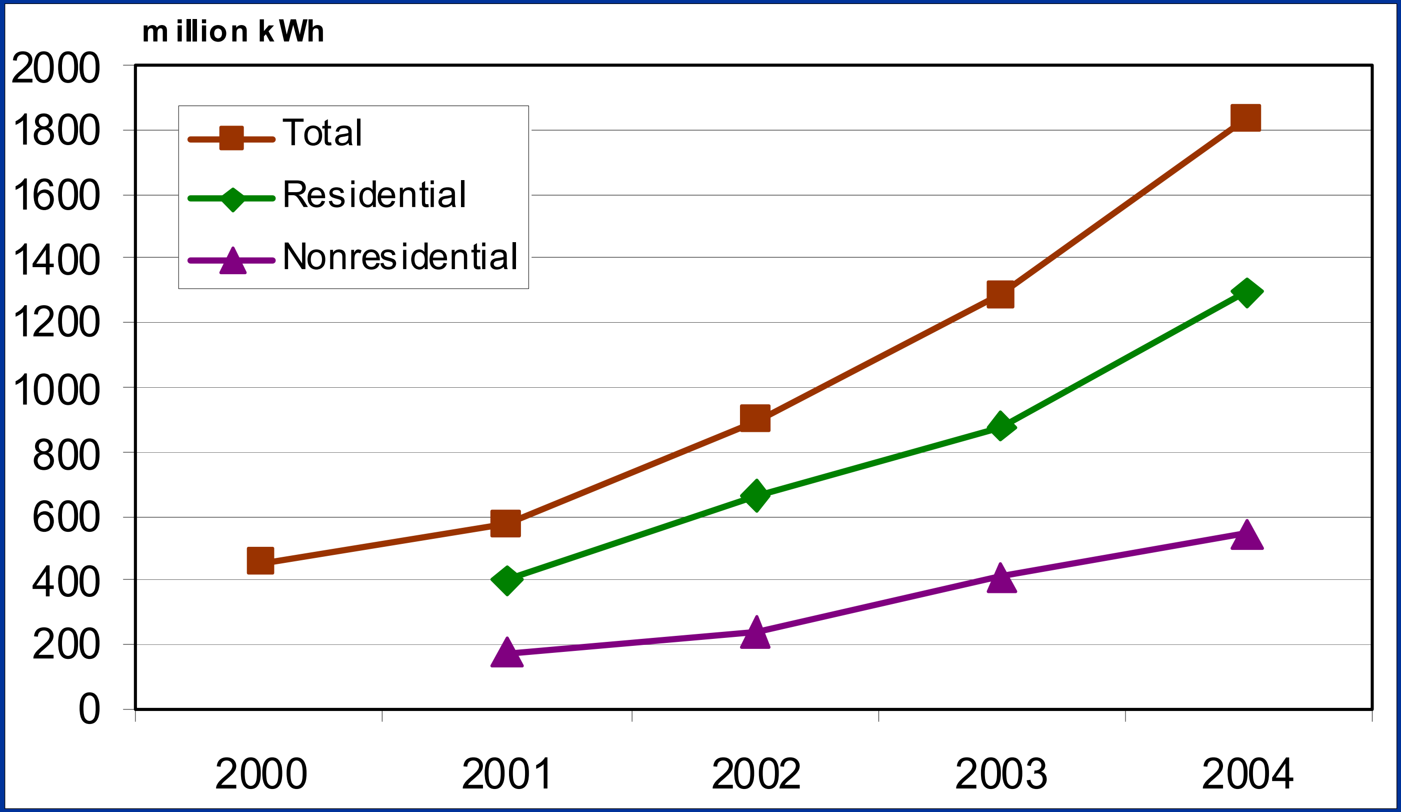
Participation Rates

- Average participation rates remained steady at 1.3%
- Most successful programs showed some improvement
  - Range for top 10 programs was 4% to 15% in 2004, compared to 4% to 11% in 2003, and 3% to 6% in 2002
  - Average for top 10 programs was 6.3% compared to 5.5% in 2003
- Possible explanations for steady rates among all programs:
  - a continued lack of awareness among customers
  - lack of sustained marketing efforts in some cases
  - a discrepancy between what customers report in surveys and what they actually do when presented an option
  - the addition of new programs each year

Green Pricing Sales and Revenues

- Continued trend of strong growth in sales
  - 43% increase in 2004, following 44% in 2003, and 56% in 2002
- Increase due to new participants and larger purchases by nonresidential customers
- Sales still represent very small fraction of total utility sales
  - On average, green power sales were 0.4% of total utility sales
  - Most successful programs had sales of 3% of total utility sales
- Improvement among greater number of programs
  - Top 10 utilities accounted for 71% of sales, compared to 85% in 2003
- Estimated revenues of $32 million for all programs, compared to $20 million in 2003
- Similar to past years, residential customers spent an average of $5.30/month

Sales of Green Power Through Utility Green Pricing Programs

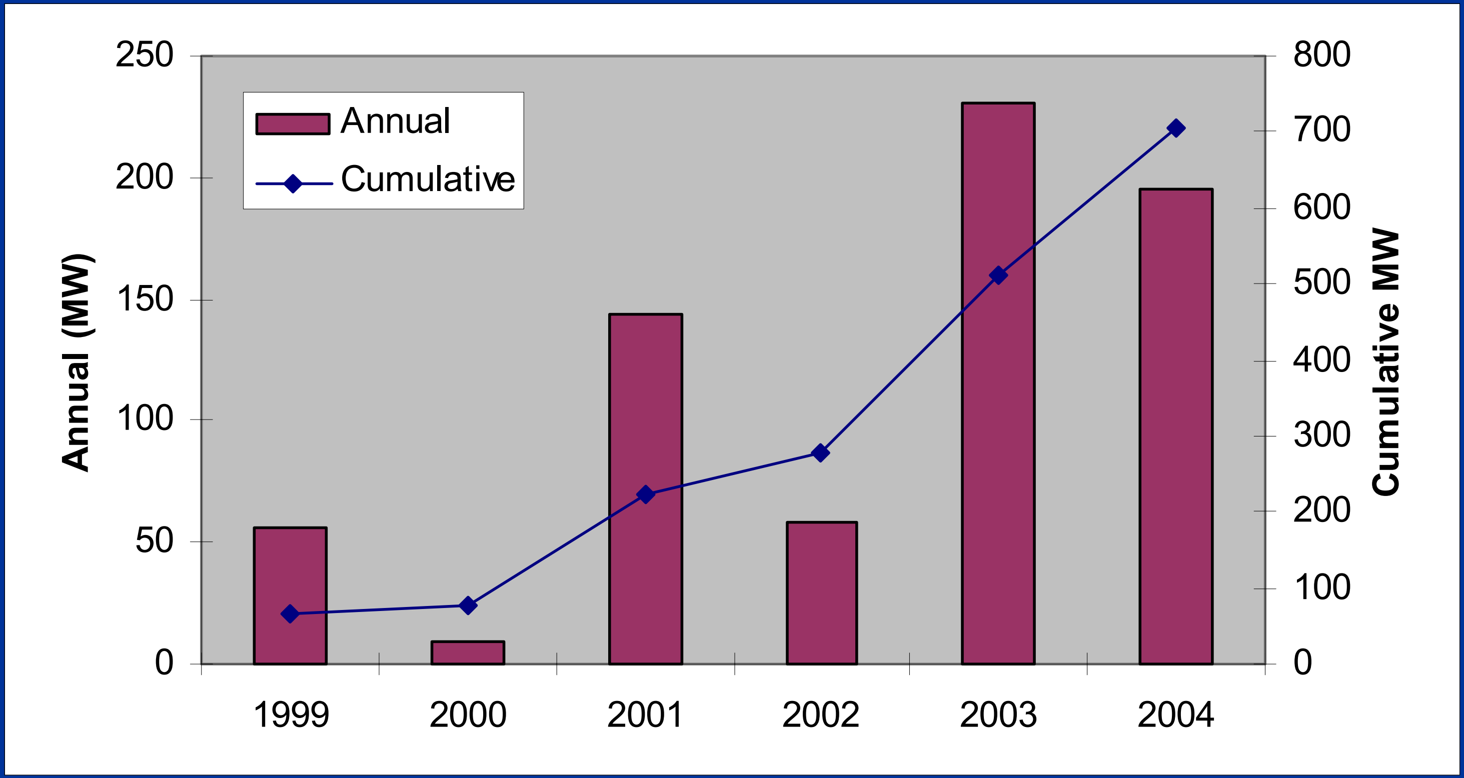


- Total green pricing sales of 1.8 million MWh in 2004
- Fourfold increase in sales since 2000

Renewable Energy Supplies

- Fewer utilities own renewable energy projects used to supply programs
  - 25% of utilities owned generation used for at least 50% of program supplies, down from 40% in 2003
- More utilities are purchasing RECs
  - 33% purchase RECs for at least 50% of program supplies, compared to 20% in 2003
  - REC purchases represented 40% of green pricing sales in 2004, up from 33% in 2003, and 11% in 2002
- About 700 MW of new renewable energy capacity was supplying green pricing programs in 2004
- Another 225 MW was planned

New Renewable Energy Capacity Serving Green Pricing Programs (MW)

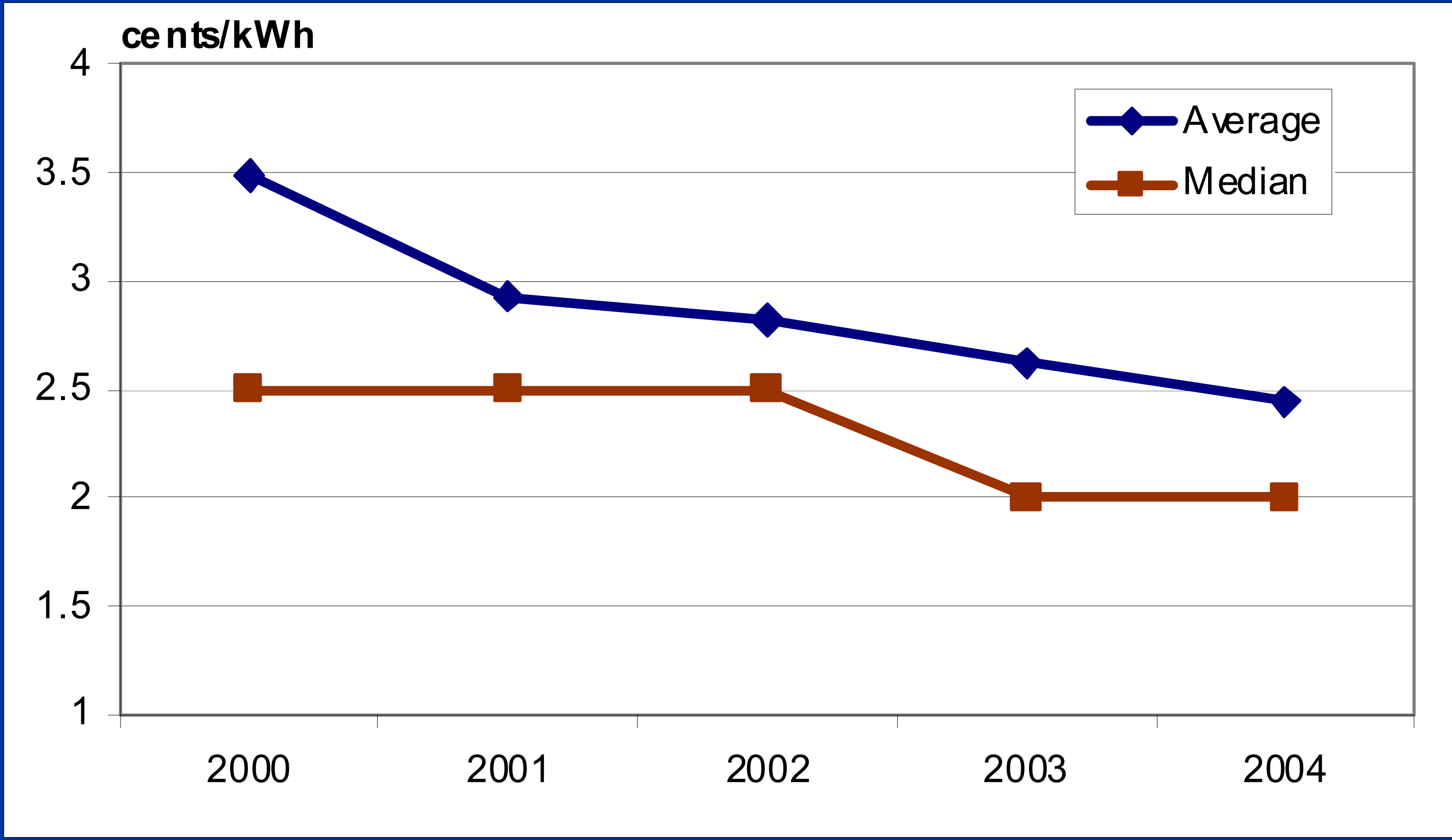


Tenfold increase in capacity supplying green pricing programs since 1999. Wind represents about 80% of capacity.

Pricing

- Average price premiums continued decline to 2.45¢/kWh
- The lowest premium reached dropped to 0.33¢/kWh
  - 0.3 ¢/kWh to 17.6¢/kWh, with solar products accounting for high end
  - Top 10 programs had premiums ranging from 0.3¢/kWh to 1¢/kWh
- IOU prices slightly higher than munis and publics
  - IOU's averaged 3.1¢/kWh compared to 2.2¢/kWh for publics and 2.0¢/kWh cooperatives
- Most utilities that reduced their premiums exempt customers from fuel charges or renegotiated power purchase contracts
- Only 7 utilities protected customers from fossil fuel costs
- Relatively few utilities (half dozen) offer lower premiums or volume discounts to nonresidential customers

Price Premiums for Green Power through Utility Programs



Premiums have declined at annual average rate of 8% since 2000

Marketing and Administrative Costs

- Utilities reported that slightly more of the green pricing premium is devoted to marketing and administration
  - Median of 9% spent on M&A, up from 5% in 2003
  - Top performers spent median of 25% on M&A
- Nearly two-thirds of utilities report that some costs are **<u>not</u>** borne by program participants
  - Most indicate that some marketing and administrative costs are shared by all ratepayers
- Median customer acquisition cost remained at $30
  - Small utilities reported lower customer acquisition costs, perhaps because all costs not included
  - Top performers report median customer acquisition cost of $40

Marketing and Administrative Costs (continued)

- Utility expenditures on marketing and administration for green power programs vary by utility size
- Utilities with more than 500,000 customers reported a wide range of marketing expenditures, with 30% spending less than $50,000 and nearly 60% spending more than $100,000
- Only four utilities, all top performers, reported spending more than $250,000 on marketing
- A number of the top performers reported spending less on administration than marketing

Marketing Strategies Used by Utilities

Marketing Technique	*2003*	*2004*	*Top 10*
Utility newsletter	81%	78%	73%
Events	24%	74%	73%
Bill inserts	83%	74%	73%
Publicity	64%	56%	69%
Web marketing	N/a	56%	73%
Direct sales	N/a	38%	50%
Newspaper ads	53%	36%	46%
Direct mail	48%	35%	62%
Radio ads	45%	22%	19%
Television ads	22%	15%	31%
Telemarketing	14%	6%	12%

Additional Program Benefits Provided

Added Value for Customer	2003	2004	Top 10
Newsletters (program updates)	64%	61%	69%
Plaques or recognition	49%	51%	65%
Window decals	56%	49%	73%
Business recognition	51%	49%	65%
Tours to project sites	29%	23%	19%
School programs	25%	19%	15%
Other	12%	16%	19%
Efficiency products	12%	15%	23%
Discounts/promotions	12%	12%	35%
Fuel costs exemption	10%	9%	23%

In Summary – Another Good Year

- Continued trend of strong growth in sales, driven by new customers and larger nonresidential purchases
- Good growth in participants, with slower growth among nonresidential sector than in past
- Participation rates remained flat, although top programs showed some improvement
- Steady but moderate growth in number of new programs
- Premiums continue to decline
- New renewable capacity serving green pricing programs increasing

But Challenges Remain…

- Customer retention may require additional attention.
- Although more programs are showing improvement, still a relatively small number of programs dominate sales and customer numbers.
- Without additional green pricing requirements, will the industry continue to grow or will it languish?
- Can more programs achieve 10% penetration rates?
- Can utilities continue to attract large nonresidential customers, with increased competition from REC marketers? Lower premiums may be needed.
- In period of high fuel prices and volatility, should more utilities be offering fuel price stability benefits?

What can we learn from the leading programs….

Thanks!

- Thank you to all of the utilities that provided information for this study!
- Full report: Bird, L. and E. Brown, 2005. *Trends in Utility Green Pricing Programs (2004),* NREL/TP-620-38800 NREL.
  http://www.eere.energy.gov/greenpower/resources/pdfs/38800.pdf

GREEN POWER Network

THE clearinghouse for information on the electric power industry's green power efforts.

http://www.eere.energy.gov/greenpower/

1. Has your green pricing program struggled with customer retention? What are the most effective strategies you have used to retain customers?
2. What are the key challenges to offering a stable rate renewable energy product?
3. What changes to your program have had most impact on improving customer participation and sales?
4. What are the most effective strategies for getting nonresidential customers to enroll? Is your program feeling competition from REC marketers?
5. What has been your most effective marketing campaign?
6. What are the biggest opportunities and challenges to growing your program in the coming years? Can you get to 10% customer participation?

7. What have you learned about targeting and marketing messages? Which messages are most effective? For residential and nonresidential customers?
8. Do you use RECs to supply your program? Are there any downsides to that strategy? What are the benefits?
9. What are the most important program benefits that you provide to your green power customers? What makes your program attractive to customers?
10. What do you think is the biggest barrier to customers enrolling in your program?
11. Have you achieved reductions in customer acquisition costs? If so, what has been the key to your success?
12. How important is internal support within the utility (upper management) to the success of the program?
13. What are the most effective means to raise customer awareness of renewables? Are statewide, regional, or multi-utility campaigns necessary to raise awareness?